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IWC COMMUNICATIONS LIMITED

ANNUAL REPORT

AUGUST 31, 1975

Directors and Officers

IWC COMMUNICATIONS LIMITED 81 BARBER GREENE ROAD, DON MILLS, ONTARIO M3C 2A3

Directors

- J. Trevor Eyton, Q.C., *Partner, Tory, Tory, DesLauriers and Binnington (Barristers and Solicitors)*
- Donald H. Gordon, *Vice-President and Secretary, Allpak Products Limited (Diversified Investment and Holding Company)*
- John W. Hardie, *President, Stephenson's Rent-All Limited*
- Joseph J. MacBrien, *Vice-President, Johnston MacBrien Limited (Investment Counsel)*
- Peter J. Nadler, C.A., *Partner, Nadler, Gould & Company (Chartered Accountants)*
- Gurston I. Rosenfeld, *Vice-President, Corporate Development, Global Communications Limited, Vice-President, Guardian Growth Financial Services Limited, Director, Guardian Capital Group Limited*
- J. Allan Slaight, *President and Chief Executive Officer of the Corporation and Global Communications Limited*
- Lloyd F. Stevens, F.C.A., *Executive Vice-President, Allpak Products Limited (Diversified Investment and Holding Company)*
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Officers

- J. Allan Slaight, *President and Chief Executive Officer*
- Leslie Halpert, C.A., *Vice-President, Finance and Treasurer*
- John G. Carnegie, *Vice-President, Radio Division*
- George E. Saunders, *Vice-President, Cable Division*
- J. Trevor Eyton, Q.C., *Secretary*
- G. Elizabeth Hannan, *Assistant Treasurer*
-

Auditors

Clarkson, Gordon & Co., Toronto, Ontario.

Solicitors

Tory, Tory, DesLauriers & Binnington, Toronto, Ontario.

Transfer Agents

Guaranty Trust Company of Canada, Toronto, Ontario.

Stock Listing

Toronto Stock Exchange

Operating Subsidiaries

- CFGM Broadcasting Limited
- Radio CFOX Inc.
- Sarnia Broadcasting (1964) Limited
- Barrie Cable TV Limited
- Orillia Cable TV Limited
- Terra Communications Limited

Associated Company

Global Communications Limited

IWC Communications Limited is a constrained-share Corporation at least 80% of the shares of which must be beneficially owned by persons who are Canadian citizens or who are corporations controlled in Canada.

President's Report

IWC COMMUNICATIONS LIMITED

On behalf of your Board of Directors, I am proud to report continued progress at IWC. Income before extraordinary items for the past year was \$484,000 compared to \$298,000 for the previous year, an increase of 62%. The most important development affecting your company was the substantial improvement of Global Communications Limited under IWC management.

Television

The loss before extraordinary items, of Global Communications in its fiscal year concluding August 31, 1975, was reduced to \$4,798,000 from \$15,806,000 one year earlier. On October 2, 1974, 2,415,679 additional shares of IWC were issued to provide funds required to service the investment of IWC in Global. To this date, IWC has invested \$3,500,000 in Global and is the guarantor of \$1,500,000 of bank loans to Global. For your information, the annual report of Global is appended to this annual report.

Cable

Our cable division is comprised of systems in Barrie (Barrie Cable TV Limited), Orillia (Orillia Cable TV Limited) and Mississauga (Terra Communications Limited), and they registered revenue increases over the previous year of 13.2%, 9.6%, and 24.0% respectively. Barrie and Orillia were granted rate increases of \$0.75 from \$4.50 to \$5.25 per month per subscriber, and those increases became effective on June 1, 1975. Their full impact will be felt during our present fiscal year. On October 1, 1975, Terra implemented the final stage of a rate increase of \$1.00 from \$5.00 to \$6.00 monthly. We anticipate continued improvements in all three cable companies in the current year. Barrie and Orillia plan to apply to the Canadian Radio-Television Commission (CRTC) to bring two U.S. channels into their service area by means of a microwave hook-up.

Our cable operations tend to be relatively immune to the vagaries of economic fluctuations. All three have stable growth and earnings patterns and are important contributors to the stability of IWC earnings.

Radio

Our radio division consists of CFGM (Richmond Hill/Toronto) CHOK (Sarnia) and CFOX (Montreal). CFGM continues to be the biggest single contributor to corporate profits. A recent document published by the Canadian Association of Broadcasters reveals CFGM substantially outperforms the industry average for profitability in its particular revenue category. CHOK continues to show excellent growth in revenue and profitability. In Montreal, CFOX had attained respectable profits during the first four months of our last fiscal year. However, IWC management determined that long term growth and profits at CFOX were limited by the country music format in Montreal. We therefore decided to change CFOX programming, with CRTC approval, from country music to a more contemporary style, and we anticipate this change, which created anticipated early months losses, will soon result in greater profitability for your company.

CFGM has filed an application with the CRTC for a change in frequency from 1310 to 1320 on the AM dial. We expect to appear before the CRTC at a public hearing in the Spring, and believe our application will be approved. With a change to 1320, CFGM's daytime coverage will embrace an additional 1,000,000 residents of Southern Ontario within our 0.5 mV/m contour, and our nighttime signal will improve approximately 30%. IWC management has worked for several years on this engineering project, and the current application for a frequency change before the CRTC is the result of a combined effort to maximize Ontario frequency allocations with other AM stations in Kitchener and Cambridge.

On January 15, 1976, executives of CFGM and

IWC appeared before the CRTC at a hearing in Toronto to apply for a new FM station to serve Metro Toronto. We have filed for station CKIN to broadcast on FM frequency 99.1 at a maximum power of 100,000 watts from a transmitter site purchased some time ago at Bethesda, north of Toronto. Our application is for an FM outlet to program contemporary album selections and specialized music to appeal primarily to the 18-34 age group. This application is one of eight filed with the Commission for a Toronto frequency. The hearing was detailed and competitive, and it is impossible to predict the successful applicant with confidence.

For the first time, in the Fall of 1975, the BBM Bureau of Measurement (BBM) published radio listening surveys predicated on "radio-only" diaries. Total radio listening in Canada was shown to be approximately 30% greater than during former surveys, when respondents were required to register radio listening and television viewing during a one-week period on the same diary. Industry experts had long stated radio was "under-measured" on radio-T.V. diaries, and the separate diary results published recently by BBM would appear to substantiate this.

Noram

You will recall that, at the time of the amalgamation of IWC and Slight Broadcasting Limited, IWC owned Noram Communications Limited, a company which was engaged in audio sound systems, cable construction, and similar activities. Noram was sold by IWC shortly after the amalgamation but the purchaser became insolvent in 1975. In result, IWC has written off as an extraordinary item the balance of the purchase price together with a \$300,000 provision for bank guarantees given as part of the sale.

Management Appointments

We are pleased to announce the appointment of two vice-presidents of IWC Communications Limited.

George E. (Sandy) Saunders is appointed Vice-President, Cable Division, and John G. Carnegie is appointed Vice-President, Radio Division.

Mr. Saunders began his career in the CATV industry in Montreal, with Rediffusion Inc. in 1958. In 1963 he joined Famous Players as General Manager of the Barrie and Orillia cable systems, which were subsequently purchased by IWC Communications Limited. He now resides in Mississauga.

Mr. Carnegie joined IWC Communications in August 1975, and previously had been Vice-President and General Manager of station WYSP in Philadelphia. Prior to that he had been group Vice-President-Radio Division of Pacific Southern Broadcasting, headquartered in Cincinnati.

Outlook

All three areas of broadcasting in which your company is involved, radio, cable and television, continue healthy as we enter 1976. We are confident that these positive trends will continue and we look forward to continued improvement at each IWC division and at Global Communications.



President.

January 29, 1976.

Consolidated Balance Sheet

IWC COMMUNICATIONS LIMITED (Incorporated under the laws of Ontario)

	August 31	
ASSETS	1975	1974
Current:		
Cash and bank deposit receipts	\$ 170,046	\$ 262,288
Accounts receivable	566,119	683,192
Deposits, prepaid expenses and other	93,910	102,293
Mortgage receivable		125,277
	<u>830,075</u>	<u>1,173,050</u>
Investment in debentures of Global Communications Limited, at cost (note 2)	<u>3,500,000</u>	<u>1,000,000</u>
Amount receivable on sale of Noram Communications Limited (note 3)		<u>200,000</u>
Fixed, at cost (note 4)	6,588,614	6,031,991
Less accumulated depreciation	<u>2,815,536</u>	<u>2,283,236</u>
	<u>3,773,078</u>	<u>3,748,755</u>
Other:		
Excess of purchase price of shares and assets of consolidated subsidiaries over estimated fair value of underlying net tangible assets at dates of acquisition (note 1(a))	4,692,461	4,692,461
Deferred development costs (note 1(c))	22,692	61,632
Sundry other assets	<u>40,561</u>	<u>40,652</u>
	<u>4,755,714</u>	<u>4,794,745</u>
	<u>\$ 12,858,867</u>	<u>\$ 10,916,550</u>

LIABILITIES	August 31	
	1975	1974
Current:		
Operating bank indebtedness (note 5)	\$ 215,000	\$ 138,000
Provision for loss under bank guarantee (note 3)	300,000	
Accounts payable and accrued liabilities	370,650	401,601
Income and other taxes payable	233,115	163,268
Deferred subscription revenue	232,354	192,754
Principal amounts of long-term liabilities due within one year (note 5)	533,259	553,381
	<u>1,884,378</u>	<u>1,449,004</u>
Long-term liabilities (note 5)	<u>676,410</u>	<u>1,240,169</u>
Interim advances from shareholders (note 6(a))		<u>1,000,000</u>
Deferred income taxes	<u>198,600</u>	<u>164,390</u>
Shareholders' equity:		
Capital (note 6) —		
Authorized:		
10,000,000 shares without par value		
Issued:		
7,247,037 shares (1974 — 4,831,358)	7,788,452	4,889,637
Retained earnings	<u>2,311,027</u>	<u>2,173,350</u>
	<u>10,099,479</u>	<u>7,062,987</u>
	<u>\$ 12,858,867</u>	<u>\$ 10,916,550</u>

On behalf of the Board:

Allan Slaight, Director

Gurston I. Rosenfeld, Director

Consolidated Statement of Operations

IWC COMMUNICATIONS LIMITED

	Year ended August 31	
	1975	1974
Revenue	\$4,787,015	\$4,423,975
Expenses:		
Selling, programme, technical and administrative	3,316,197	3,025,859
Interest — long-term debt	152,217	212,223
— other (net)	(10,184)	(38,524)
Depreciation (note 1(b))	555,404	504,253
Amortization of deferred development costs (note 1(c))	38,940	38,940
	4,052,574	3,742,751
Operating income (note 8 (b))	734,441	681,224
Interest income on Global 1974 interest debentures (note 2)	313,925	11,482
Income before income taxes and extraordinary items	1,048,366	692,706
Income taxes	564,728	394,600
Income before extraordinary items	483,638	298,106
Extraordinary items:		
Provision for loss arising from insolvency of former subsidiary, less applicable income tax reductions of \$26,500 (note 3)	527,175	
Costs relating to denied licence applications, less applicable income tax reductions of \$6,000		133,174
Income tax reductions resulting from carry forward of prior years' losses	(202,800)	(28,000)
	324,375	105,174
Net income for the year	\$ 159,263	\$ 192,932
Net income per share:		
Before extraordinary items	6.9¢	6.0¢
Less extraordinary items	(4.6)	(2.0)
For the year	2.3¢	4.0¢

Consolidated Statement of Retained Earnings

IWC COMMUNICATIONS LIMITED

	Year ended August 31	
	1975	1974
Balance, beginning of year	\$ 2,173,350	\$ 1,980,418
Net income for the year	159,263	192,932
Share issue costs under rights offering (net of applicable income tax reductions of \$ 21,500) (note 6(a))	(21,586)	
Balance, end of year	<u>\$ 2,311,027</u>	<u>\$ 2,173,350</u>

The accompanying notes are an integral part of these financial statements.

Auditors' Report

To the Shareholders of IWC Communications Limited:

We have examined the consolidated balance sheet of IWC Communications Limited ("IWC") and its subsidiaries as at August 31, 1975 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As explained in note 2, and as part of a refinancing plan of Global Communications Limited ("Global"), IWC has made a substantial investment in Global on which it is receiving interest income, is committed to make a further investment therein, and is contingently liable with respect to Global's bank debt. Global has incurred substantial losses to August 31, 1975 and is expected to incur some additional losses before a profitable level of operations is attained. The ultimate recovery of IWC's investment in Global, as well as interest thereon at the contractual rate over the period such investment is held, and the elimination of the contingent liability relating to Global's bank debt, will depend on that corporation's ability to attain such profitable operations and to generate sufficient funds to meet its obligations.

In our opinion, subject to the effects, if any, of the ultimate resolution of the matters discussed in the preceding paragraph, these consolidated financial statements present fairly the financial position of the corporations as at August 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Consolidated Statement of Changes in Financial Position

IWC COMMUNICATIONS LIMITED

	Year ended August 31	
	1975	1974
Source of funds:		
Income before extraordinary items	\$ 483,638	\$ 298,106
Charges not affecting working capital —		
Depreciation	555,404	504,253
Amortization	38,940	38,940
Deferred income taxes	34,210	62,590
Funds from ordinary operations	1,112,192	903,889
Income tax reductions resulting from carry forward of prior years' losses	202,800	28,000
Current maturity of mortgage receivable		125,277
Issue of shares on exercise of stock options		4,050
Decrease in other assets, net	91	35,876
	<u>1,315,083</u>	<u>1,097,092</u>
Application of funds:		
Investment in debentures of Global Communications Limited (note 2)	2,500,000	1,000,000
Repayment (receipt) of interim advances from shareholders (note 6(a))	1,000,000	(1,000,000)
Less funds obtained from related issue of shares, under rights offering, net of applicable costs (note 6(a))	(2,877,229)	
	622,771	
Provision for loss on insolvency of former subsidiary, less \$ 200,000 debenture write-off included therein which does not affect working capital	327,175	
Costs relating to denied licence applications, less applicable income tax reductions of \$ 6,000		133,174
Additions to fixed assets	579,727	720,731
Reduction of long-term liabilities	563,759	552,931
	<u>2,093,432</u>	<u>1,406,836</u>
Decrease in working capital	(778,349)	(309,744)
Working capital (deficiency), beginning of year	(275,954)	33,790
Working capital (deficiency), end of year	<u>\$ (1,054,303)</u>	<u>\$ (275,954)</u>
Working capital (deficiency) represented by:		
Current assets	\$ 830,075	\$ 1,173,050
Less current liabilities	1,884,378	1,449,004
	<u>\$ (1,054,303)</u>	<u>\$ (275,954)</u>

Notes to Consolidated Financial Statements

August 31, 1975

IWC COMMUNICATIONS LIMITED

1. Summary of accounting policies

The following summary of accounting policies of IWC Communications Limited ("IWC") and its subsidiaries is set forth to facilitate the understanding of data presented in these financial statements:

(a) Principles of consolidation—

The consolidated financial statements include the accounts of the corporation and of all of its subsidiaries, as follows:

Wholly-owned subsidiaries—

CFGM Broadcasting Limited
Sarnia Broadcasting (1964) Limited
Terra Communications Limited
Barrie Cable TV Limited
Orillia Cable TV Limited
Suburban York Sales Limited
288265 Ontario Limited

80% owned subsidiary—

Radio CFOX Inc.

The accounts of the subsidiaries are included in the consolidated statements on the purchase basis of accounting with the excess of the purchase price of the shares and assets of such subsidiaries over the value assigned to their net tangible assets at dates of acquisition (also considered to be the estimated fair value of such net tangible assets at such dates) included with other assets in the consolidated balance sheet. The corporation's policy is not to amortize this excess, which all relates to subsidiaries purchased prior to 1974, so long as there is no evidence of impairment in value of such subsidiaries.

(b) Depreciation—

Depreciation is provided by the corporations at rates and on bases designed to amortize the cost of fixed assets over their estimated useful lives, as follows:

	Rate	Basis
Buildings	2½ %-10%	Straight-line
CATV and radio plant	10%-15%	Straight-line
Equipment, vehicles and other	10%	Straight-line or
	20%-30%	Diminishing balance

(c) Deferred development costs—

Costs relating to the initial development of the original cable system of a subsidiary were deferred and are being amortized against income over a five-year period ending April 1, 1976. Similar costs relating to the expansion of the cable system in the same geographic area have been charged against operations as incurred.

(d) Income taxes—

Deferred income taxes are provided on timing differences between accounting income and income for tax purposes. These differences arise because certain amounts claimed for tax purposes (mainly depreciation) are in excess of related amounts written in the accounts

Potential future tax savings resulting from the availability for tax purposes in certain of the corporations of deductions (mainly capital cost allowances) that represent amounts already charged against income (referred to further in note 7) are not being recognized in the accounts until realized. Such future tax savings as may result from the deduction of such amounts will be credited to income as extraordinary items in the years realized.

2. Interest in Global Communications Limited

On April 11, 1974, the Canadian Radio-Television Commission ("CRTC") approved the transfer of control of Global Communications Limited ("Global") to a group (the "Group"), the two principal members of which are IWC and Global Ventures Western Ltd. ("Ventures"). Under the terms of various agreements, as amended, the Group's interest and undertaking with respect to Global is as follows:

- (a) The Group has voting control of Global under a "Voting Trust and Option Agreement" which expires January 15, 1983.
- (b) The Group has options to 1983 to purchase 626,000 of the currently outstanding 665,000 common shares of Global and to purchase a further 14,000 treasury shares, at prices ranging from \$0.50 to \$7.00 per share, with a total exercise cost of \$1,870,000. In addition, public debenture holders currently holding 225,000 voting preferred shares of Global, which shares are to be purchased for cancellation upon payment of the outstanding debentures, were issued purchase warrants exchangeable into 225,000 common shares for \$7.00 cash per share. If all such options and warrants are exercised, the Group will have 70.8% of the then outstanding common shares of Global.
- (c) IWC has management control of Global under a management contract expiring on January 15, 1983, at an annual fee (\$175,000 in fiscal 1975) which is reviewable annually.
- (d) IWC and Ventures (as well as, in an individual capacity, two of Ventures' principals as to \$750,000 each) have each guaranteed up to \$1,500,000 (total \$3,000,000) of bank term debt of Global in excess of the first \$3,000,000 of such term debt (which term debt at November 28, 1975 was \$6,000,000). For these guarantees, Global is paying to the guarantors (other than Ventures) 1% per annum of the amount of the outstanding guarantees. IWC's share of such fee in fiscal 1975 was \$15,000.
- (e) To November 28, 1975, the Group had purchased a total of \$7,700,000 of 1974 interest debentures of Global and is committed to purchase an additional \$1,200,000 of such debentures as and when required by Global and the chartered banker of Global. An option to the Group to purchase a further \$1,000,000 of such debentures was allowed to expire on

August 31, 1975. The 1974 interest debentures have the following attributes:

- bearing interest at the prime commercial rate of Global's chartered banker plus 1.2%;
- due January 15, 1983 but permitting prepayment (subject to prior repayment of bank indebtedness) in whole or in part at any time prior without premium;
- secured by a floating charge on all the assets of Global, subject to prior claims and security held by Global's chartered banker and claims of ordinary trade creditors (and of certain other creditors designated as such) of Global for liabilities incurred from May 22, 1974 until May 22, 1977, and ranking pari passu with \$1,305,000 principal amount of existing Global 10% subordinated debentures.

(f) The Group has also purchased a total of \$100,000 of 1974 income debentures of Global due January 15, 1998 with the following attributes:

- bearing interest payable out of tax-paid earnings of Global at rates reducing by one percentage point per annum from 30% in 1975 to 20% in 1985 and thereafter of the pre-tax earnings of Global for each immediately preceding fiscal year;
- secured by a floating charge on all the assets of Global, subordinate to the 1974 interest debentures.

Under the terms of the Group agreements, as amended, the respective interests of the parties involved at November 28, 1975 in the above debentures and options were as follows:

	1974 interest debentures		1974 income debentures held	Options on shares held
	Held	Commitment		
IWC and subsidiaries	\$3,453,000	\$ 460,000	\$ 43,500	45%
Ventures group	3 453,000	460,000	43,500	45%
Epstein group	494,000	280,000	10,000	10%
Rosenfeld group	300,000		3,000	
	<u>\$7,700,000</u>	<u>\$1,200,000</u>	<u>\$100,000</u>	<u>100%</u>

In the event that the Epstein group does not meet the above purchase commitment, its 10% interest in the 1974 income debentures and options is subject to reduction pro rata in favour of the other parties holding 1974 income debentures to approximately 6.4%.

As at August 31, 1975, IWC's investment in Global debentures (\$3,500,000) consisted of \$3,453,000 of the 1974 interest debentures, \$45,000 of 1974 income debentures (of which \$1,500 were sold subsequently to the Rosenfeld group), and \$2,000 due from the Epstein group in respect of 1974 income debentures purchased for it by IWC, and held in escrow, subject to release to such groups on fulfilment of the above debenture purchase commitments.

Interest income of \$313,925 included in the accompanying statement of operations of IWC for the year ended August 31,

1975, represents interest received and accrued on the amount of 1974 interest debentures owned during the year. No interest was payable by Global on the 1974 income debentures since Global was not in an income earning position.

All members of the Group have been granted mutual rights of first refusal in respect of classes of securities held by them (proportionate to their respective interests in such classes) in respect of any sale of Global securities by any member of the Group. In addition, either of IWC or Ventures (the "first party") may require the other (including the remaining parties) to elect either to sell all the Global securities held by them at the price specified by the first party or to purchase all of the Global securities held by the first party at the same price.

IWC's investment in Global was undertaken as part of that corporation's refinancing plan described in note 2 to Global's consolidated financial statements at August 31, 1975, a copy of which is appended hereto. These statements disclose that Global's liabilities exceeded the book value of its assets by \$17,230,157 at August 31, 1975 and that it had incurred losses totalling \$20,482,413 to that date. It is expected that Global will incur some additional losses before a profitable level of operations is attained.

3. Provision for loss arising from insolvency of former subsidiary

In early 1974, IWC sold its subsidiary, Noram Communications Limited ("Noram"). The consideration received on the sale was a debenture of the purchaser for \$350,000 payable over seven years and bearing interest at 1% above the bank prime rate. As a condition of sale, IWC guaranteed the bank loans of Noram for an anticipated period of two years from the date of sale, to an amount not exceeding \$500,000. IWC hypothecated the \$350,000 debenture to Noram's bank against such guarantee and subordinated any amounts owing by Noram to IWC to the interests of the bank. The aforementioned debenture was carried in the consolidated balance sheet at August 31, 1974 at \$200,000, thereby reflecting a provision of \$150,000 provided as at the prior year end in respect of warranties given and liabilities assumed on the sale of Noram.

During the 1975 fiscal year, the purchaser and related companies, including Noram, became insolvent and are being liquidated. Provision of \$527,175 has been made in the accounts for IWC's anticipated loss, including a \$200,000 write-off of the carrying value of the debenture received on the sale, a \$300,000 provision against the guarantee given to the bank, and a write-off of \$53,675 of interest accrued on the debenture to the date when it became apparent to IWC that default would be made on the debenture, less related income tax reductions of \$26,500.

4. Fixed assets

The cost of fixed assets as set out in the accompanying consolidated balance sheet is comprised as follows:

	August 31	
	1975	1974
Land	\$ 410,103	\$ 408,843
Buildings	142,918	132,020
CATV and radio plant	5,447,554	5,006,554
Equipment, vehicles and other	588,039	484,574
	<u>\$6,588,614</u>	<u>\$6,031,991</u>

5. Long-term liabilities

Details of long-term liabilities are as follows:

	August 31	
	1975	1974
Parent corporation		
Term bank loan, interest at 1 1/2 % above the prime rate, payable \$32,500 quarterly	\$ 357,500	\$ 487,500
Provision for settlement costs under employment contract, payable without interest over a five-year period to 1978	77,000	107,000
6 3/4 % promissory note		3,727
	<u>434,500</u>	<u>598,227</u>
Subsidiary corporations		
Term bank loan, interest at 1 1/2 % above the prime bank rate, payable \$170,000 in January, 1976 and \$300,000 in January, 1977	470,000	700,000
Term bank loan, interest at 1 % above the prime rate, payable \$50,000 annually	100,000	150,000
Promissory notes at 1 % above the prime rate, payable in monthly instalments of \$7,040	105,626	190,125
7 1/2 % first mortgage payable \$25,000 annually and secured by land owned by a subsidiary	37,500	62,500
8 % first mortgage secured by land owned by a subsidiary, payable in annual instalments of \$10,000 and maturing August 14, 1976	37,500	47,500
Other (mainly mortgages bearing interest at 7 % to 10 %, due by 1978)	24,543	45,198
	<u>775,169</u>	<u>1,195,323</u>
Total long-term liabilities	1,209,669	1,793,550
Less principal amounts due within one year included with current liabilities	533,259	553,381
	<u>\$ 676,410</u>	<u>\$ 1,240,169</u>

The parent corporation's term bank loan and certain related operating bank loans are secured by the assignment of accounts receivable of the corporation and of certain subsidiaries, by guarantees of such subsidiaries, and by hypothecation of a debenture and shares of one of the subsidiaries.

The aggregate payments required to repay long-term liabilities are as follows (for years ending August 31):

1976 — \$	533,259
1977 —	559,045
1978 —	117,365
	<u>\$1,209,669</u>

6. Share capital

(a) Rights offering and related issue of shares—

In September, 1974, the corporation issued 2,415,679 shares for cash of \$2,898,815 under the terms of a rights offering to its shareholders (on the basis of the issue of 1 share at \$1.20 per share for each 2 shares then held). Expenses of the rights offering (\$43,086 less related income tax reductions of \$21,500), have been charged against retained earnings.

The net proceeds of the share issue (\$2,877,229) were used:—as to \$1,000,000 to repay demand loans made on July 30, 1974 by certain shareholders of IWC to provide interim financing for IWC with respect to its initial purchase of Global debentures (note 2). Such loans bore interest during their term at 1.2 % above the highest of the prime commercial lending rates then quoted by three Canadian chartered banks;

—as to the balance, to purchase additional Global debentures.

(b) Share options—

A total of 26,600 shares of the corporation are reserved under options granted to employees and officers. Options on 24,600 shares may be exercised currently and expire over varying periods to 1985; the remaining options become exercisable by 1977 and expire after ten years. Of the total options outstanding, options on 18,000 shares are exercisable to 1978 at \$3.27 per share and the balance at \$2.47 to \$2.59 per share.

(c) Warrants—

The minority shareholders of Radio CFOX Inc. have the right to exchange their shares of CFOX for warrants to purchase 43,000 shares of IWC for a period of five years from July, 1973 at \$2.50 per share.

(d) Restrictions on share transfers—

The board of directors of IWC may refuse to permit the registration of a transfer of any shares in the capital of the corporation that would, in the opinion of the directors, adversely affect the status of the corporation, or any subsidiary thereof, as a corporation eligible to obtain, maintain, amend or renew a licence to carry on a "Broadcasting Undertaking" (as that term is defined in the Broadcasting Act (Canada)).

7. Income taxes

One of the consolidated subsidiaries has accumulated losses of approximately \$98,000 at August 31, 1975 which are available as to \$65,000 to be carried forward for tax purposes to be applied against such income as may be earned by it in years up to and including 1978, and as to \$33,000 indefinitely.

In addition, certain of the corporations have, as a result of operating losses, accumulated balances totalling \$130,000 at August 31, 1975 that represent amounts already charged against income in the accounts and that are available to reduce taxable income of future years.

Reference is made to note 1(d) for the accounting treatment followed with respect to such amounts.

8. Commitments

(a) Global Communications Limited—

Reference is made to note 2 concerning certain commitments of the corporation made in connection with the acquisition of its interest in Global.

(b) Cable Subsidiaries—

In addition to the commitments referred to in paragraph (a), the CRTC required, as a condition of its approval of the Global application, that IWC divest itself of its interest in Barrie Cable TV Limited, Orillia Cable TV Limited and Terra Communications Limited, on the understanding that this condition would not be asserted until an appropriate time in the future.

The combined operating results of these cable subsidiaries included in the accompanying consolidated statement of operations are as follows:

	Year ended August 31	
	1975	1974
Pre-tax operating income	\$326,163	\$129,191
Depreciation charges in year	443,590	392,376

(c) Lease obligations—

Minimum current net lease commitments for premises oc-

cupied by the corporation and its subsidiaries aggregate \$65,500 annually under various leases with terms to 1985. Leases and agreements for rental of cable distribution facilities currently aggregate approximately \$64,000 per annum.

(d) Fixed assets—

Certain subsidiaries were committed in the amount of approximately \$177,000 to acquire fixed assets and to complete certain distribution facilities.

9. Contingent liabilities

Reference is made to note 3 concerning the contingent liability of the corporation under a guarantee of bank loans of \$500,000 relating to a former subsidiary (against which provision for loss of \$300,000 has been made), and to note 2 concerning guarantees and other contingent liabilities of the corporation in connection with its acquisition of its interest in Global Communications Limited.

10. Statutory information

Aggregate remuneration paid or payable to directors and senior officers (defined by The Business Corporations Act (Ontario) to include the five highest paid employees) amounted to \$286,200 (1974—\$299,053).

